

Nashville Industrial Market Weathers Tornados + COVID-19 in First Half of 2020

Nashville Economy

The first half of 2020 has tested the resiliency of Nashville's industrial market, as an outbreak of tornados swept across heavily concentrated industrial areas, flattening 3.5 million square feet of industrial space in early March. Weeks later, the COVID-19 pandemic began sweeping the nation, and statewide stay-at-home orders were issued and businesses around Middle Tennessee shut their doors. As such, unemployment in Nashville skyrocketed to 12.4% in April, following twelve consecutive quarters of sub-3% unemployment. Employment in the supply and distribution sector decreased by 6% in Q2.

Given the rise in unemployment and slowdown in the economy, the effects of COVID-19 have not been as disruptive on the industrial market compared to the other industry sectors. COVID-19 has helped fuel momentum of e-commerce, in a world where consumers can retrieve their goods within hours of purchase. There has been an unprecedented demand for goods and essentials, and warehouse space and last-mile distribution centers will likely be highly sought after

Nashville's occupancy rate remained above 94% for the seventeenth consecutive quarter and average rents reached an average rental rate of \$6.57 per square foot. Year-to-date absorption totals over 2M square feet, representing a 300% increase over the same time frame in 2019.

Absorption & Leasing Activity

- > The decrease in vacancy this quarter was met with 874,614 square feet of net absorption, bringing the YTD net absorption to 2,190,283 square feet. The East submarket experienced the largest amount of move-ins during the second quarter, totaling 862,621 SF.
- > At a combined 973,198 square feet, Remar, FedEx, and Opturo were some of the largest absorptions in the region in Q2.
- > Leasing activity exceeded 4.3 million square feet at mid-year 2020, a 10% increase over the first half of 2019. Over 2 million square feet in deals were executed in Q2, including notable leases signed by FedEx (558,600 SF), NDC (300,000 SF), and Goggin Warehousing (229,504 SF).

SUMMARY STATISTICS

2Q 2020 Nashville Industrial Market	Small/Mid Range	Bulk	Flex
Vacancy Rate	3.4%	3.6%	3.5%
Change From 1Q 2020 (basis points)	-20	-50	+80
Net Absorption SF	-198,454	953,879	119,189
YTD Net Absorption SF	67,043	2.0M	114,828

ASKING RENTS

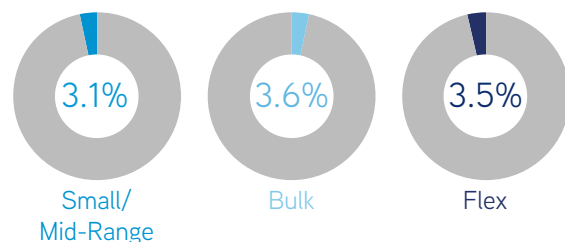
Per Square Foot Per Year

Overall Asking Rate	\$6.57
Flex	\$12.91
Bulk	\$4.55
Small/Mid-Range	\$8.22

JOB GROWTH & UNEMPLOYMENT

Unemployment	May-19	May-20
Nashville	2.6%	11.1%
Tennessee	3.5%	11.0%
U.S.	3.6%	13.0%

VACANCY SNAPSHOT



Q2 2020 NOTABLE LEASING ACTIVITY

PROPERTY	TENANT	LEASE TYPE	SF	SUBMARKET
Park 840	FedEx	New	558,600	East
407 New Sanford Road	NDC	Ren/Exp	300,000	Southeast
801 Swan Drive	Goggin Warehousing	Renewal	229,504	Southeast
Park 840	Opturo	New	207,518	East
300 Oak Bluff Lane (Bldg. C)	Remar, Inc.	New	207,080	North
521 Hardng Industrial Drive	American Tire Distributors	Renewal	130,000	Southeast

Vacancy & Availability

- > Nashville's industrial market closed mid-year 2020 with 5.4% vacancy, keeping Nashville's occupancy rate above 94% for the seventeenth consecutive quarter.
- > The high-demand submarket posting the lowest flex vacancy of 3.4% is the East submarket, with less than only 62,612 square feet of direct vacant space.
- > The East submarket experienced the greatest decrease in bulk vacancy in to 3.7% at the close of Q2, down from 6.7% in Q1.

Rental Rates

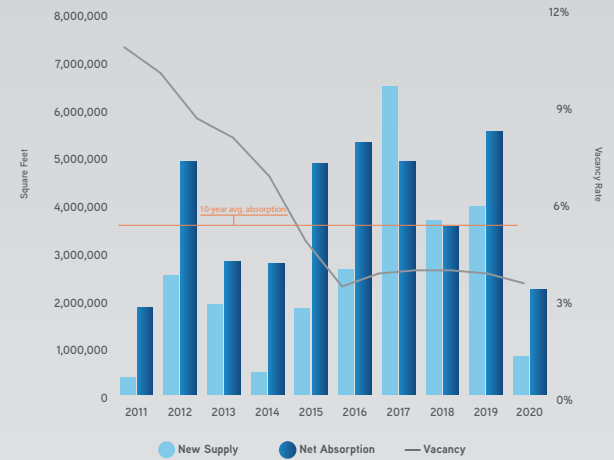
- > High demand continued to push rental rates upward during the first half of 2020. **Average industrial rent reached \$6.57 per square foot, a 2.6% increase since last quarter and a 5.7% increase over the last 12 months.**
- > The market average rental rate for flex product has reached a new record at \$12.91 per square foot, with the highest rate in the IBD submarket at \$15.10 per square foot followed by \$12.15 in the Southwest submarket.
- > Rental rates for bulk product—industrial space exceeding 100,000 SF—closed 2Q 2020 at \$4.55 per square foot. The East submarket where the majority of new bulk construction has delivered in 2020, boasts the highest rent at \$5.90 per square foot.

Notable Development

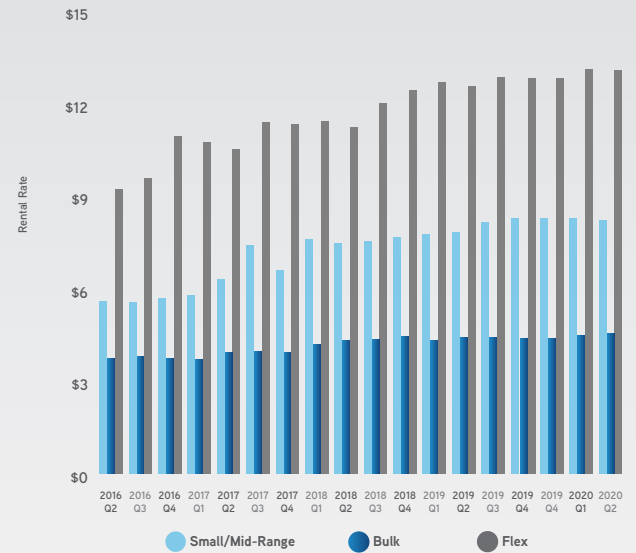
Solid rental rates and high occupancy fueled construction and development during the second quarter. Middle Tennessee's industrial inventory increased by 940,000 square feet of new supply in Q2, bringing a YTD total to 1.6 million square feet.

Amazon is underway on 3.6 million square feet in the East submarket, the largest industrial project in the region. The 5-story facility will house 1,200 jobs, and is expected to deliver in 2021.

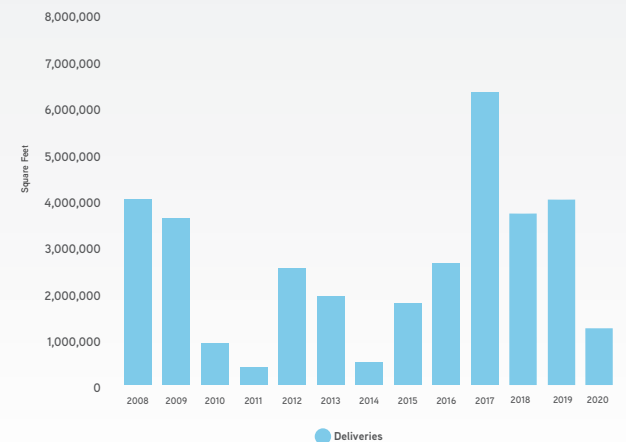
ABSORPTION, NEW SUPPLY & VACANCY RATES



RENTAL RATES BY TYPE



NASHVILLE MARKET NEW DELIVERIES



2Q 2020 SUBMARKET COMPARISON

MARKET	BUILDINGS	TOTAL INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	2Q NET ABSORPTION	YTD NET ABSORPTION	AVERAGE ASKING RENTAL RATE (PSF)
EAST								
Small/Mid-Range	271	8,706,305	201,144	69,530	3.1%	-113,472	-78,005	\$7.05
Bulk	90	32,571,637	1,201,743	0	3.7%	984,568	906,869	\$5.90
Flex	55	1,829,543	62,612	0	3.4%	-8,475	-32,240	\$11.45
East Total	416	43,107,485	1,465,499	69,530	3.6%	862,621	796,624	\$6.50
IBD								
Small/Mid-Range	336	9,196,877	206,443	20,300	2.5%	11,199	60,067	\$8.27
Bulk	28	5,231,234	154,268	0	2.9%	-5,268	-5,268	\$5.10
Flex	43	1,487,034	71,463	0	4.8%	-13,440	-32,873	\$16.73
IBD Total	407	15,915,145	432,174	20,300	2.8%	-7,509	21,926	\$7.52
NORTH								
Small/Mid-Range	485	16,464,971	269,303	0	1.6%	21,590	101,229	\$6.94
Bulk	129	33,055,433	937,882	148,075	3.3%	-159,827	467,329	\$3.98
Flex	73	2,788,286	116,854	3,631	4.3%	55,739	81,050	\$15.10
North Total	687	52,308,690	1,324,039	151,706	2.8%	-82,498	649,608	\$5.54
SOUTHEAST								
Small/Mid-Range	320	12,071,259	488,710	0	4.0%	-98,677	63,084	\$6.68
Bulk	156	48,755,556	1,565,143	662,644	4.6%	134,406	659,992	\$4.15
Flex	80	3,147,646	117,547	23,320	4.5%	42,360	84,720	\$11.58
Southeast Total	556	63,974,461	2,171,400	685,964	4.5%	78,089	807,796	\$5.62
SOUTHWEST								
Small/Mid-Range	186	6,323,264	422,857	54,678	7.6%	-7,094	-100,675	\$10.08
Bulk	30	4,917,087	10,630	7,602	0.4%	0	-20,510	\$7.00
Flex	63	2,771,872	14,576	0	0.5%	49,905	31,421	\$12.15
Southwest Total	279	14,012,223	448,063	62,280	3.6%	42,811	-89,764	\$9.16
WEST								
Small/Mid-Range	117	3,355,372	12,000	0	0.4%	-12,000	21,343	\$13.55
Bulk	20	6,324,552	0	0	0.0%	0	0	\$6.45
Flex	12	264,575	17,250	0	6.5%	-6,900	-17,250	\$8.00
West Total	149	9,944,499	29,250	0	0.3%	-18,900	4,093	\$11.75
MARKET								
Small/Mid-Range	1,715	56,118,048	1,600,457	144,508	3.1%	-198,454	67,043	\$8.22
Bulk	453	130,855,499	3,869,666	818,321	3.6%	953,879	2,008,412	\$4.55
Flex	326	12,288,956	400,302	26,951	3.5%	119,189	114,828	\$12.91
MARKET TOTAL	2,494	199,262,503	5,870,425	989,780	3.4%	874,614	2,190,283	\$6.57

Q2 2020 NOTABLE INVESTMENT ACTIVITY

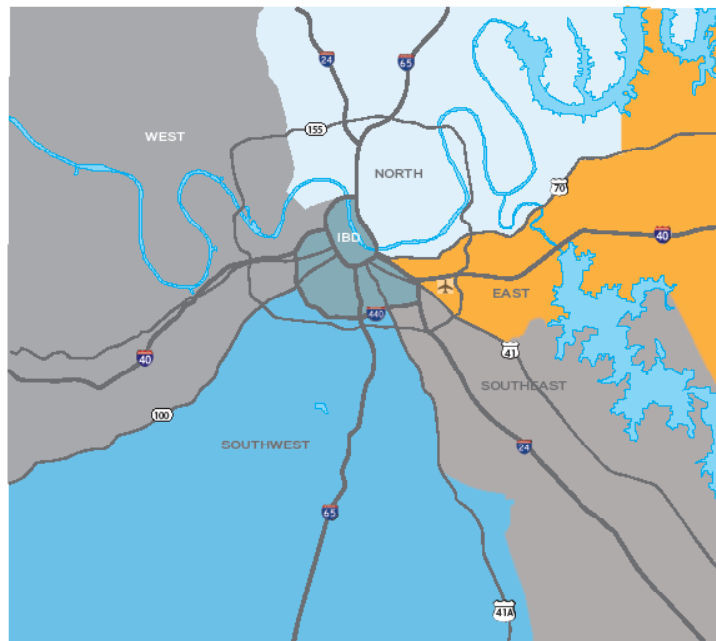
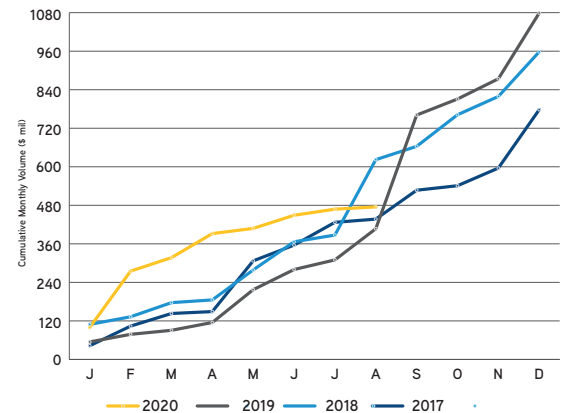
PROPERTY	BUYER	TOTAL SF	SALE PRICE	PRICE/SF	SUBMARKET
Airport Business Park (Bldg. 1)	Stockbridge	622,830	\$49,311,200	\$79	Southeast
Airport Business Park (Bldg. 2)	Stockbridge	301,495	\$23,870,206	\$79	Southeast
401 Enos Reed Drive	Setzer Properties	98,800	\$17,300,000	\$175	IBD
1845 Elm Hill Pike	Oak HC/FT Partners III, RE Acquisition Co LLC	8,510	\$12,000,000	\$1,410	East
4717 Centennial Boulevard	Alliance Residential	103,630	\$10,350,000	\$100	West
777 Swan Drive	Sims-Lohman Incorporated	100,000	\$6,200,000	\$62	Southeast

Investment Activity

- Industrial investment in Nashville at mid-year 2020 reached nearly \$450 million, surpassing the totals of the past three years during the same time frame.
- Investment slowed in the second quarter, as COVID-19 has created an environment of uncertainty for investors and lenders. The pandemic has demonstrated that e-commerce is the way of the future, and industrial assets will continue to play a vital role in fulfilling customer needs.

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

CUMULATIVE MONTHLY INVESTMENT VOLUME (\$ MIL)



DEFINITIONS

Colliers Inventory – All industrial and flex properties of more than 10,000 SF including owner-occupied. Research subject to revisions due to discrepancies in past reporting.

Flex – A type of building designed to be versatile, which may be used in combination with office R&D, quasi-retail sales, and industrial warehouse and distribution uses.

Leasing Activity – The square footage that is committed to and signed for under a lease obligation in each quarter, including direct leases, subleases, renewals of existing leases, and pre-leasing activity for buildings under construction or planned.

Absorption (Net) – The net change in occupied space between the current quarter and the previous quarter, calculated by summing all the positive changes and subtracting all the negative changes.

Vacancy Rate – Percentage rate of the total amount of vacant space divided by the total amount of existing inventory.

Build-To-Suit – Property that can be leased or owned by a tenant that was developed specifically for them.

Triple Net Rent (NNN) – Includes rent payable to the landlord and does not include additional expenses such as taxes, insurance, maintenance, janitorial and utilities. All industrial and high-tech/R&D rents in this report are quoted on an annual, triple net per square foot basis in U.S. dollars.

New Construction – Includes completed speculative and build-to-suit construction. New construction quoted on a net basis after any demolitions or conversions.

FOR MORE INFORMATION

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